

IN RE: Application of Duke Power Company for)
Approval of Agreement for the Provision) ORDER
of Fiber Optic Transmission Capacity with) GRANTING
SouthernNet of North Carolina.) APPROVAL

Testifying on behalf of Duke was Marion Hinson Smith, Jr. Mr. Smith testified that Duke is presently installing a fiber optic communication system for its present and future internal communications needs. The system will operate by means of fiber optic cable combined with static wire on electric transmission towers. The fiber system which Duke is installing will provide capacity for Duke's existing internal requirements and reserve capacity for future communications applications. Duke intends to

make this reserve capacity available to SouthernNet under the terms and conditions set forth in the Agreement. The backbone of Duke's system is to be completed in 1990 and will run from Oconee Nuclear Station to the Spartanburg Area Operating Center to Catawba Nuclear Station to Charlotte to McGuire Nuclear Station to Winston-Salem terminating at the Area Operating Center in Greensboro.

Duke's fiber optic system is designed to link the Charlotte System Operating Center with the three area operating centers and the three nuclear plants. The system will be used primarily for control and monitoring of Duke's electric generation and transmission network. The system will, in part, replace Duke's existing analog microwave system which is at capacity and subject to atmospheric interference.

SouthernNet is a subsidiary communications company of Telecom USA, with a fiber optic backbone that runs generally from Washington to Atlanta. Within the Duke service territory the SouthernNet fiber link runs generally parallel to the Duke line from Greensboro to Charlotte to Greenville. SouthernNet's fiber is installed on distribution poles and underground along highway or railroad rights of way. The Agreement between Duke and SouthernNet contemplates three transactions: (1) an exchange of equivalent capacity (2 DS3's) to be used by each party as a back-up for their respective telecommunications systems; (2) a provision for emergency capacity (2 DS3's) to be provided to either party in the event of an outage on either system; and (3) for a fee, Duke will

make available to SouthernNet its reserve capacity between fiber interconnect points, generally four DS3's. Duke's system has a capacity of 12 DS3's.

The initial term of the Agreement will be for five (5) years. The agreement provides for two (2) additional terms of 5 years each. If SouthernNet desires to renew, it shall give Duke written notice thereof, at least twelve (12) months prior to the commencement of the renewal term. Within ninety (90) days of such renewal notice, Duke shall accept or reject SouthernNet's renewal request by written notice to SouthernNet.

In consideration for providing commercial capacity to SouthernNet, Duke will receive 65% of the gross system carrier revenues derived by SouthernNet as determined in accordance with the Contract. SouthernNet shall pay to Duke a minimum of \$40,000 per month.

Duke intends to credit the revenues received under this Agreement against the expenses associated with the fiber optic capacity so that this will be a totally "above the line" transaction and the revenues produced will benefit Duke's electric customers.

Duke testified that the Agreement is beneficial to Duke's customers and that initially it will allow a savings of approximately \$1 million in that Duke will not have to construct its own alternate route for "critical application" circuits. In

addition, revenues generated by the agreement will reduce overall communications costs to Duke and its customers.


On cross-examination by the Consumer Advocate, Duke stated that it is not asking the Commission to pass on the reasonableness of Duke's building this fiber optic system. Therefore, the reasonableness of the costs and any kind of ratemaking treatment would be held open until Duke's next rate case. Any excess costs, if they are found in the context of that rate case, could be disallowed in rate base at the time. Any unforeseen benefits from this extra use by SouthernNet could also be credited to ratepayers.

Duke testified that it thoroughly researched various opportunities in the market place before it entered into the contract with SouthernNet. There is no affiliate relationship between Telecom, SouthernNet's parent company and Duke.

Based on the evidence in the record, the Commission finds that the Agreement should be approved. The fiber optic communication system is necessary for Duke's present and future internal communications needs. The Agreement with SouthernNet will enable Duke to receive a minimum of \$40,000 per month in revenues. Duke should credit the revenues received under this agreement against the expenses associated with the fiber optic capacity so that this would be a totally "above the line" transaction and the revenues produced will benefit Duke's electric customers. The Agreement is beneficial to Duke's customers and will allow a savings of approximately one million dollars initially in that Duke will not have to construct its own alternate route for critical application

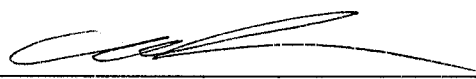
circuits. In addition, revenues generated by the Agreement will reduce overall communications costs to Duke and its customers. The reasonableness of the costs and any kind of ratemaking treatment will be held open until Duke's next rate case.

BY ORDER OF THE COMMISSION:



Chairman

ATTEST:



Deputy Executive Director
(SEAL)